

The bottom line: Leadership skills strongly influence “whole country” productivity

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Abstract

The conference theme is ‘Thriving at Work’. This paper outlines two key principles that occupational psychologists can apply to help organisations thrive:

1. *Present evidence-based practice*
2. *Help focus on improving leadership – as organisations can only thrive with quality leadership*

This paper presents our research on direct evidence of the difference in productivity that good leadership and management skills make at “country macroeconomic” level.

Leadership and Management skills at country level were obtained via Situational Judgement Tests (SJTs) adapted for international use. Based on results from over 120,000 leaders and managers from 40 countries, the “average leadership or management” score for a country was significantly correlated with its GDP per Capita or Employee ($r=0.62$, $n=33$ countries for leaders and $r=0.48$ $n=34$ countries for managers). In regression analyses, management and leadership skills uniquely influenced 6.5 – 14% of GDP per Capita.

Does investing in Leadership and Management really affect business productivity?

With the conference theme ‘Thriving at Work’ what do we, as Occupational Psychologists really know about how much leadership and management interventions truly contribute to an organisation’s effectiveness?

With leadership development and talent management teams in businesses across the world investing to raise the bench strength of their leadership and management populations, does anyone really know what the ultimate impact is on business productivity? All teams have a leader but does the quality of that individual make any difference? Is it just a big placebo effect – i.e. will people just perform as there is a leader present; irrespective of the leader’s competence? Our research directly addresses this question about whether the competence of leaders matters.

The key finding is that in a study of 40 countries involving over 120,000 leaders and managers, a country’s average level of **leadership and management skills was directly linked to its GDP**. Effective investment in leadership and management skills will on average raise a country’s productivity (and the productivity of its businesses) by between 6.5 and 14%.

Human Capital Investment

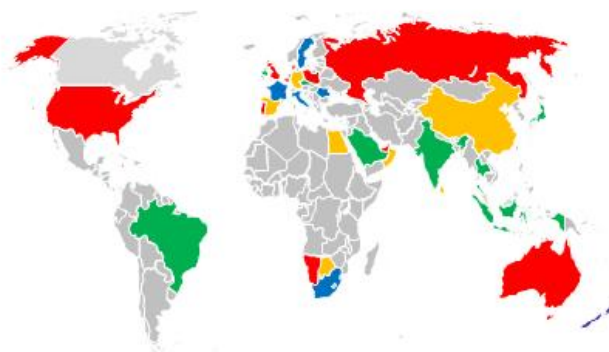
An investment in Human Capital is expected to reap some benefits for a country. But hard evidence for the link between investing in human capital and improving the bottom line is often difficult to find. This study provides just this type of evidence.

A Global Study

This major global study involved over 120,000 leaders and managers from 40 countries and a wide variety of sectors. Advances in the assessment of leadership and management skills have allowed a standardised benchmark of these skills to be obtained across countries. Using 2 widely used situational judgement tests (SJTs) of Leadership and Management skills called Management Scenarios and Executive Scenarios, average scores for leadership and management skills were obtained for each of the countries in the study.

The SJTs used had been adapted for international use. What this means is that the management situations used must be relevant and work effectively across the globe. Research was conducted to ensure that this is the case i.e. substantial reliability and validity data exists for their use in various World Regions.

SJT data was compared with country productivity. Leadership and management skills data were mainly collected in the years preceding the GDP per Capita measurement, allowing a (at least in part) predictive design.



Participating Countries

Country Productivity

Country productivity – GDP per capita gives a good measure for any country of the productivity returned on the human capital employed. Country productivity is also in many ways the ultimate test of the productivity of a country's individual businesses. The 40 countries included in this study varied widely on this measure.

For Human Capital Investment, as well as leadership and management skills, other common measures of Human Capital were also included in the study: life expectancy, percentage of the school leaver population in Tertiary Education within 5 years of leaving school, and Unemployment Rate. These Human Capital measures are indicators of a country's development and therefore one would expect each of them to have some correlation with GDP per capita.

These measures were chosen as they are arguably among the most objective Human Capital measures i.e. they do not rely on subjective / self-report ratings of variables e.g. perception of the quality of a country's management schools on a 7 point scale. Can measures of leadership and management skills also predict the productivity of a country, even after controlling for these other Human Capital Investment measures?

Leadership and Management skills directly influence country profits

Leadership and Management skills were found to directly influence a country's productivity, even after accounting for other measures of Human Capital Investment. This finding was obtained in 2 separate analyses, one for Leadership Skills using Executive Scenarios with over 20,000 leaders and senior managers, and one for Management Skills using Management Scenarios with over 100,000 managers and supervisors.

First of all, a country's average leadership score was found to correlate $r = 0.62$ ($n = 33$) with its GDP per Capita. For a country's average management score, the correlation with its GDP per capita was $r = 0.48$ ($n=34$). In other words, stronger leadership and management skills are associated with productivity at a country level, and by implication, associated with productivity of the individual businesses within that country, regardless of sector.

Using regression analyses, all the Human Capital measures outlined earlier were matched against a country's GDP per capita. In both analyses, the most important influence on GDP per Capita was life expectancy. The only other measure to reach significance was practical leadership / management skills. Specifically, Leadership Skills were found to uniquely account for around 14% of GDP per Capita in the 33 countries studied. For Management Skills, the figure was around 6.5% in the 34 countries studied.

In other words, even if your country has high levels of enrolment in tertiary education, a low unemployment rate and a long life expectancy (high levels of worker health), a country's productivity is still substantially influenced by leadership and management ability - skills that can be developed with the right investment.

Good leadership skills do make a macro-economic difference. Further, the findings suggest that it is worth investing in the selection and development of leaders in order to improve organisational productivity and global productivity.

Conference Submission Questions

1. What are the main psychological theories, models and research underpinning your session?

Investment in leadership leads to organisational productivity, which then leads to the country's productivity.

2. How do you see your proposal linking with the main conference theme of 'Thriving at Work'?

Thriving at work is about sustained productivity.

3. Why do you think the submission is appropriate for the particular topic you have chosen?

The paper covers possibly 3 topic areas: Research Design; Psychological Assessment at Work; and Leadership. It applies evidence-based research to use test data in a way that has not been done before. It proves to our profession that investing in improving leadership is worthwhile.

4. What do you consider to be the most novel or innovative aspects of the ideas being presented?

Applying test data on a global scale in a novel way.

5. Why do you think conference delegates will find the paper or session stimulating and useful?

They know about tests, but they will never have seen test results been applied in such a global manner and with such a profoundly significant result that impacts on a whole countries' performance.

6. What might the public or media find interesting about your paper or session?

They should latch on to the fact that we have finally got strong evidence at a large and global level that investing in leadership development does make a difference.

7. What materials, if any, do you intend to make available to conference attendees and what format will these take? (e.g., printed hand-outs, electronic copies of slides)

Electronic copies of slides and the conference submission paper.